Constructing Budgets

Trimester assessment worksheet with multiple choice, short answer, data response, and extended response sections.

Time guideline	50 minutes
Total marks	32
Focus	Sales budgets, expense budgets, profit budgets, forecasting, and honest budgeting assumptions.
Student note	Show full working for all calculations. For variances, state whether they are favourable or adverse. The answer key and marking guidance appear at the end of this PDF.

Q1. Multiple choice [4]

1. Which budget is often prepared first because it influences production and spending plans?

A. The sales or revenue budget
B. The transport budget
C. The administration budget
D. The variance report

2. A profit budget is calculated by:

A. adding fixed and variable costs only
B. subtracting forecast total costs from forecast revenue
C. dividing revenue by costs
D. subtracting actual costs from actual revenue

3. A budget holder is best defined as:

A. the owner of all company assets
B. a manager responsible for controlling a budget
C. an external auditor
D. the employee who creates every invoice

4. Why are budgets often revised during the year?

A. Because costs and market conditions may change
B. Because revenue never changes
C. Because budgets are only legal documents
D. Because actual results must always equal forecasts

Q2. Short answer [8]

a) State two sources of information managers may use when preparing a budget. [2]

b) Explain the difference between a sales budget and an expense budget. [2]

c) Explain why honest budgeting matters for decision-making. [2]

d) State one limitation of budgets based on forecasts. [2]

Q3. Data response / case study [12]

VoltRide Ltd plans to launch a larger production run of electric scooters next year. Managers have prepared the following assumptions for the annual budget.

Budget assumption	Value
Forecast sales volume	8,400 scooters
Average selling price	$920 per scooter
Materials cost	42% of sales revenue
Labour cost	19% of sales revenue
Marketing cost	$540,000
Factory rent	$280,000
Administration and logistics	$410,000

a) Calculate the forecast annual sales revenue. [2]

b) Calculate the budgeted materials cost and labour cost. [4]

c) Calculate the total budgeted cost. [2]

d) Calculate the budgeted profit. [2]

e) Suggest one action management could take if the budgeted profit margin is below target. [2]

Q4. Extended response [8]

Evaluate the usefulness of budgets as planning and control tools before a business launches a new product line.

Answer key and marking guidance

Use this section as a teacher markscheme or to support self-checking after completion.

Q1. Multiple choice - answer key [4]

Item	Answer	Guidance
1	A	Sales forecasts help determine how much output and expenditure will be needed.
2	B	A profit budget estimates profit by comparing expected revenue with expected total costs.
3	B	Budget holders are managers accountable for financial performance in their area.
4	A	Budgets are forecasts, so they are updated when conditions change.

Q2. Short answer - marking guidance [8]

a) Award [1] each for any two valid sources such as past sales data, market research, competitor analysis, supplier quotations, or economic forecasts.

b) Award up to [2] for explaining that a sales budget forecasts expected income from sales, while an expense budget forecasts expected spending on materials, labour, overheads, and other operating costs.

c) Award up to [2] for explaining that unrealistic assumptions can mislead managers, cause poor pricing or output decisions, and reduce the reliability of financial planning.

d) Award [1] for identifying a valid limitation, such as unexpected changes in demand or costs, and [1] for linking this to reduced accuracy.

Q3. Data response / case study - marking guidance [12]

a) Sales revenue = 8,400 x 920 = $7,728,000. Award [2] for the correct calculation.

b) Materials cost = 42% x 7,728,000 = $3,245,760. Labour cost = 19% x 7,728,000 = $1,468,320. Award [2] each, up to [4].

c) Total budgeted cost = 3,245,760 + 1,468,320 + 540,000 + 280,000 + 410,000 = $5,944,080. Award [2].

d) Budgeted profit = 7,728,000 - 5,944,080 = $1,783,920. Award [2].

e) Award up to [2] for one suitable action such as reviewing price, reducing avoidable costs, improving efficiency, increasing forecast sales through promotion, or delaying the launch.

Q4. Extended response - marking guidance [8]

Relevant arguments may include better planning of output and staffing, earlier identification of funding needs, clearer spending limits, and a basis for later control through comparison with actual results. Limitations may include forecasting error, bias in assumptions, and the danger of inflexible targets if markets change quickly.

Band	Indicative descriptor
7-8	Balanced and well-supported judgement. Clear analysis, direct application to the question, and at least one limitation or
5-6	Good explanation with some analysis and an attempt to weigh benefits against limitations. May lack balance or precise a
3-4	Some relevant understanding, but analysis is brief or mostly descriptive. Limited judgement.
1-2	Very limited response with isolated points and little or no analysis.
0	No relevant credit.